



SF 414 – Homebuyer Savings Accounts (LSB2200SV)

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Fiscal Note Version – New

Description

Senate File 414 creates a new State income tax exemption for qualified deposits to a First-time Homebuyer Savings Account. While there is no limit to the amount a taxpayer may contribute to an account, deposits qualifying for the income tax exemption are limited to \$3,000 per year for an individual account or \$6,000 per year for a married couple with a joint account. Interest earned on account balances is also exempt from State income tax.

A qualifying account must pay interest and be established with a State or federally chartered bank, savings and loan association, credit union, or trust company in Iowa. The account must have an administrator. An account holder may also serve as the account administrator. To be eligible to establish an account, a taxpayer must never have been the owner (individually or jointly) of a single-family, owner-occupied residence.

The assets of an account are to be used for the down payment and allowable closing costs associated with the purchase of a home. Withdrawals from the account are tax-free as long as the money is used for a down payment and closing costs for a single-family, owner-occupied home in Iowa. If the account holder withdraws the money from the account for any other reason, they must include that money as taxable income on their Iowa tax return in the year of withdrawal. Nonqualified withdrawals are subject to a 10.0% withdrawal penalty on the amount of the withdrawal. If the withdrawal occurs on the last business day of a calendar year, or is the result of the death of the account holder, no withdrawal penalty applies. This Bill is effective January 1, 2016, and applies to tax year 2016 and after.

Senate File 414 imposes a serious misdemeanor penalty for knowingly preparing or causing to be prepared a false claim, statement, or billing to justify the withdrawal of money from a First-time Homebuyer Savings Account. This type of activity may already be charged as a form of criminal conduct under current law.

Background

Correctional Impact

Expanded definitions and enhanced penalties generally increase criminal justice system costs. Refer to the Legislative Services Agency (LSA) memo addressed to the General Assembly, **Correctional Impact Memo**, dated January 30, 2015, for information related to criminal justice system costs.

Minority Data Information

Refer to the memo to the General Assembly, **Minority Impact Memo**, dated January 30, 2015, for information related to minorities in the criminal justice system.

Assumptions

- An estimated 38,000 single-family, owner-occupied homes are sold in Iowa each year.
- An estimated 40.0% of single-family, owner-occupied homes are sold to first-time homebuyers (15,200 homes).
- The annual number of accounts established to purchase first-time homes will fall into these general categories.
 - 8,000 one-year accounts (the year of purchase) with an average deposit of \$4,250 per account.
 - 2,500 two-year accounts with an average annual deposit of \$3,750.
 - 700 three-year accounts with an average annual deposit of \$3,250.
 - 300 four-year accounts with an average annual deposit of \$3,000.
 - 3,700 first-time home purchases will be made without an account.
 - The interest rate on accounts will average 3.4% over the next 10 years.
 - The average marginal income tax rate for benefited taxpayers will be 6.5%.
 - Due to the work and publicity needed to get the process fully operational, the fiscal impact in the first three years is assumed to be limited to a percentage of the projected full impact:
 - Calendar year 2016 (impacting FY 2017) = 25.0%
 - Calendar year 2017 (FY 2018) = 50.0%
 - Calendar year 2018 (FY 2019) = 75.0%
 - Calendar year 2019 and after = 100.0%
 - The average statewide rate for the local option income surtax for schools is 3.2%.

Summary of Impacts

Fiscal Impact

The tax credit created in this Bill is projected to reduce net General Fund revenue by the following amounts:

First-time Homebuyer Tax Credit	
In Millions	
	General Fund Revenue Reduction
FY 2017	\$ -0.8
FY 2018	-2.0
FY 2019	-3.2
FY 2020	-4.3
FY 2021	-4.3
FY 2022	-4.3

For fiscal years beyond FY 2021, the fiscal impact continues at a similar level. The new tax credit will reduce State tax liability and it will also reduce the revenue raised by the local option income surtax for schools, for school jurisdictions with the surtax in place. This Bill is projected to reduce the statewide surtax yield by \$100,000 annually.

Correctional Impact

This Bill provides a serious misdemeanor penalty for any person that knowingly prepares or causes to be prepared a false claim, statement, or billing to justify the withdrawal of money from a first-time homebuyer savings account. A serious misdemeanor is punishable by confinement for no more than one year and a fine of at least \$315 but not more than \$1,875.

The correctional impact cannot be estimated but is expected to be minimal.

Minority Impact

The minority impact cannot be estimated but is assumed to be minimal.

Sources

Federal First-time Homebuyer claims, 2008 and 2009

Iowa Association of Realtors

Iowa Department of Revenue

Legislative Services Agency analysis

/s/ Holly M. Lyons

April 1, 2015

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
